



3 Reasons to Buy Imperial Oil (Even If You Missed the Rally)

Description

Guess who is the newest addition to the 52-week high list? It's Canada's lumbering energy giant **Imperial Oil** ([TSX: IMO](#)).

Over the past year the stock has delivered a remarkable 30% return for shareholders. Yet in spite of the run-up, the company still has several catalysts that could drive its share price further.

1. Great growth prospects

Imperial is a powerful company with a rock solid balance sheet and diverse set of growth opportunities. Today, the firm is sitting on 16 billion in proved and non-proved barrels of oil equivalent with properties spread across the Horn River, Montney, and Cardium basins, as well as substantial positions in the Beaufort Sea and Mackenzie Delta in the Arctic.

Of course, the Alberta oil sands are the centrepiece of the company's growth strategy. Production continues to grow at Imperial's Cold Lake and Kearl bitumen operations in Alberta. And last year the company also boosted its oil sands presence with the \$751 million purchase of **ConocoPhillips'** Clyden lease.

All of this gives Imperial plenty of room to ramp up production. Over the next six years, management is looking to almost double output from 329,000 barrels of oil equivalent per day, or boepd, last year to 600,000 boepd by the end of 2020.

2. Good outlook for the oil sands

Not only is Imperial pulling more barrels of oil out of the ground, but it's likely to start earning more on each one produced. As kinks in the energy supply chain begin to clear and producers begin to access new markets, we're starting to see the price of oil sands crude rally.

TransCanada expects to receive approval for both its Keystone XL and Energy East pipelines later this year. If approved, these proposals could add a combined 1.9 million barrels per day of takeaway capacity by 2018. **Enbridge** ([TSX: ENB](#))([NYSE: ENB](#)) has also been quietly expanding its pipeline

network. Over the next three years management plans to add an additional million barrels per day of outbound capacity. Additional investment in crude by rail will also help reduce pipeline constraints in the short term.

Not only are oil sand producers finding routes out of Alberta, but the demand for bitumen is also surging. Before the advent of North America's shale revolution, oil imports were growing steadily heavier forcing refiners to invest in technologies to process low grade volumes of crude. Those upgrades that were started years ago are nearing completion, and this will ensure steadily rising demand for Alberta oil.

3. Shareholder-friendly management

Bar none, Imperial Oil is the best steward of shareholder capital in the Canadian energy industry.

In the oil and gas sector, investors have a useful yardstick to determine how well executives are managing our money: return on capital employed. This metric measures the profits a business generates while accounting for the amount of capital needed to earn those returns. And over the past five years, Imperial has generated a 25% average return on capital employed annually, more than double its nearest oil sands rival.

How has Imperial been able to pull this off? The company has a discipline that its rivals lack. Management allocates capital only to its highest returning projects. And if executives cannot find enough new ventures to fund, they regularly return excess funds to shareholders.

Between 2003 and 2012, the company paid out nearly \$14 billion to investors in dividends and buybacks — more than **Suncor**, **Canadian Natural Resources**, and **Cenovus** combined. And over the past 20 years, Imperial has repurchased over half of its outstanding shares allowing investors to double their stake in a remarkable business.

Foolish bottom line

The bull case for Imperial isn't flawless. The company is struggling to complete the second phase of its flagship Kearl oil sands project. Yes, investors should be worried about another round of cost overruns and delays.

However, management has proven themselves to be good custodians of shareholder capital over decades. That's why this stock deserves a permanent place in your portfolio regardless of the recent share price run-up.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:IMO (Imperial Oil Limited)

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